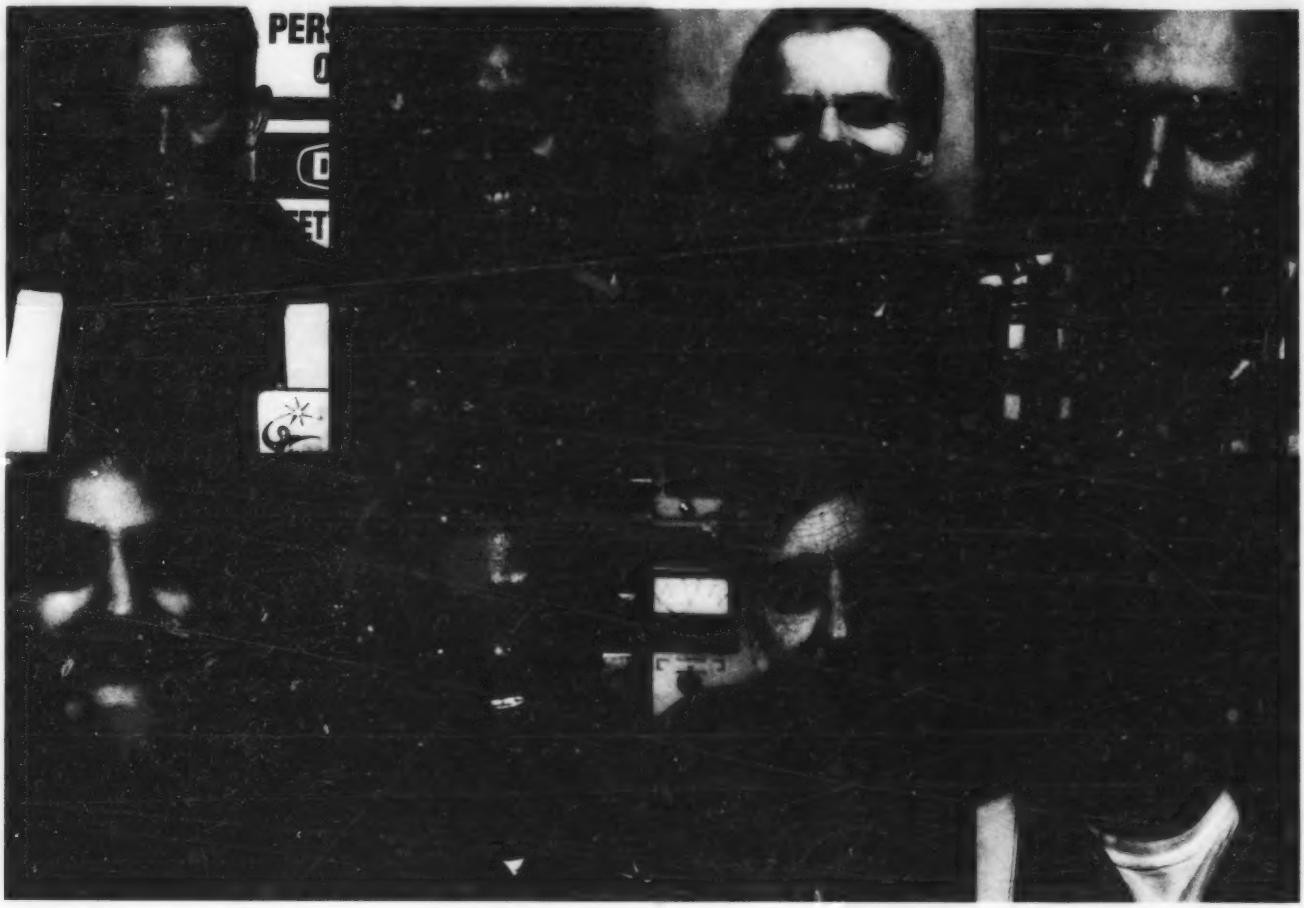


# WE'RE READY...

toronto hydro

## 1970s

**A building** boom in Toronto increases Toronto Hydro's peak load by 5.6 percent.

**In 1971**, the peak load increases another four percent, with the addition of service to First Canadian Place, Hydro Place and the twin towers of the Royal Bank Plaza.

**In 1973**, the international Energy Crisis grips the world, as the members of OPEC drive oil prices skyward. Together with high inflation, the crisis pushes Toronto Hydro rates up three times in four years.

## 1980s

**Toronto Hydro** now has more than 200,000 customers, and introduces a customized System Control and Data Acquisition system to enable operators to more accurately monitor and respond to distribution system emergencies.

## 1990s

**In 1990**, Toronto Hydro begins a 25-year program to convert its aging 4,000 volt distribution system to 13,800 volts, at an estimated cost of $1.5 billion.

**In 1999**, after the Toronto area's six municipal electric utilities amalgamate, Toronto Hydro Corporation is incorporated, with the City of Toronto as its sole shareholder. Toronto Hydro is now the second largest municipal electricity distribution utility system in North America, with a combined customer base of more than 650,000 and annual revenues of approximately $2 billion. Retail affiliate Toronto Hydro Energy Services Inc. is

created, and preparations begin in earnest for the new competitive marketplace just around the corner.

## 2000s

**In 2000**, Toronto Hydro Energy Services Inc. promotes its first retail electricity offer to consumers. Toronto Hydro Corporation launches new affiliate Toronto Hydro Telecom Inc., to maximize the value of its extensive fibre optic network and other telecommunications assets.

With Ontario Power Generation Inc., Toronto Hydro Corporation introduces joint venture EBT Express to serve as the central hub for data transfer and management for independent energy retailers and local distribution companies.

Toronto Hydro's unified Customer Care group completes the conversion of more than 450,000 customer accounts to its new Banner Customer Information System.

Work begins on our new consolidated master Control Centre, which will bring four control operations into one state-of-the-art facility, expected to be operational in early 2002.

Toronto Hydro begins benchmarking its performance, helping to set the standards for utilities operating under Performance Based Regulation, as mandated by the Ontario Energy Board.

## The facts

**Total customers**
656,962

**Residential customers**
578,460

**General service customers**
78,456

**Large users (over 5 Megawatts)**
46

**System average interruption duration in minutes (per year)**
92.7

**Customer average interruption duration in minutes (per year)**
45.1

**System average interruption frequency (per year)**
2.05

**Number of poles**
159,733

**Length of overhead wires**
9,172 km

**Length of underground cable**
7,361 km

**Number of primary transformers**
55,406

**Number of primary switches**
20,877

**Cable chambers**
10,094

**Underground vaults**
12,868

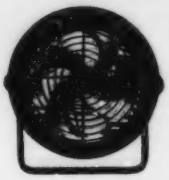
**Peak load**
4,487 Megawatts

**Purchased demand peak**
$40,470,283

**Total class kWhs sold**
25,422,282,240

**Residential class kWhs sold**
5,426,193,967

**General service class kWhs sold**
19,996,088,273



**Toronto Hydro-Electric System Limited employees**
1,897

**Toronto Hydro Energy Services Inc. employees**
52

**Sale of electricity**
$1,900,029,000

**Cost of power purchased from Ontario Power Generation Inc.**
$1,614,730,000

**Gross margin**
$285,299,000

# 2000

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**Megawatt** A measure of electrical energy equalling 1,000 kilowatts, or enough energy to power 10,000 100-watt light bulbs. **Primary transformer** A device used to transform primary voltage to secondary voltage, to transfer power from a generating plant to a customer. **Primary switch** A device for isolating a section of the distribution circuit primary power (27.6kV, 13.8kV or 4kV) from a substation. **Cable chamber** An underground facility that provides access to cables for inspections and repairs. **Underground vault** An underground facility that contains electrical equipment such as transformers, switches, protectors, etc. **Peak load** The maximum demand for power, measured in kilowatts, that occurs within a stated period of time. Toronto Hydro's peak system load (or demand peak) occurs in summer because of power demands for air conditioning. **Kilowatt-hour** A measure of electrical energy, enough to operate a 100-watt light bulb for 10 hours.

# 90th Anniversary Timeline

101-06817/

## 1910s

**In 1910**, a sub-department under Toronto's City Engineer adopts the name 'Toronto Hydro-Electric System'.

**On June 1, 1911**, Toronto Hydro-Electric System begins its new life as a public corporation. The utility's average revenue per kilowatt-hour is two cents and assets total $3 million.

**In 1914**, as Canadians battle in the war to end all wars, Toronto's multi-level skyline includes more than 50,000 wired poles – 30,000 of them concrete poles manufactured in Toronto Hydro's own shops.

## 1920s

**In 1921**, the new Toronto Transportation Commission takes over all city streetcar operations. At its peak, seven years later, the TTC has 972 streetcars and trailers, carrying almost two million riders along 547 kilometres of track.

**By 1922**, Toronto Hydro has more than 93,000 customers, and assets of $17 million. The company begins its 'Red Seal Programme' to ensure that every home has wiring heavy enough to handle modern electrical appliances.

## 1930s

**In 1930**, a year after the worst stock market crash in history, Toronto Hydro-Electric System has a load of 300,000 horsepower, with 180,000 meters and assets of almost $40 million.

## 1940s

**In 1941**, Ontario's municipal utilities, as well as Ontario Hydro, all do their part for the war effort as Keepers of the Light, by urging their customers to 'Save Hydro in Your Home: Help Win the War!'

## 1950s

**In 1951**, Toronto Hydro undertakes its largest power project to date: converting from 25 cycles to the 60-cycle standard now common throughout North America.

**Providing a** glimpse of modern marvels of electricity still to come: the CNE's futuristic 'Gold Medallion All-Electric Home of 1958' draws record crowds to the annual fair.

## 1960s

**Toronto Hydro** is actively promoting its 'Live Better Electrically' theme, beaming electric appliance commercials to customers' black and white TV sets.

Front cover left to right from top left **Andrew Campbell** Certified Power Lineperson, Distribution Services, Toronto Hydro-Electric System Limited, 10 years **Debbie Kovak** Energy Services Clerk, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 20 years **Leszek Pisarek** Electrical Design Technician, Distribution Services, Toronto Hydro-Electric System Limited, 14 years **Tim Callighen** Field Supervisor, Distribution Services, Toronto Hydro-Electric System Limited, 24 years **Samara Shaikh** Administrative Assistant, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 1 year **Bing Phillis** Energy Field Service Representative, Field Services, Toronto Hydro-Electric System Limited, 19 years **Dave Zyfber** Protection & Control Technician, Stations, Toronto Hydro-Electric System Limited, 20 years **John Peulic** Material Handler, Procurement, Toronto Hydro-Electric System Limited, 12 years

Streetcar photograph courtesy of City of Toronto Archives/TTC Fonds, Series 71, Item 3139

# Toronto Hydro Corporation at a Glance

In July 1999, Toronto Hydro Corporation was incorporated, with the City of Toronto as its sole shareholder. In keeping with the directives of the Energy Competition Act, Toronto Hydro Corporation created the new Toronto Hydro-Electric System Limited and the new Toronto Hydro Energy Services Inc.

## Toronto Hydro-Electric System Limited

**Profile**

The monopoly-based and regulated distributor of electrical power in the City of Toronto.

**Services**

- Ensures safe and reliable delivery of electrical power to our market
- Maintains power lines across the city

**Vision**

A commitment to delivering a reliable source of electrical energy that consistently meets customer expectations and regulated service standards, while maintaining our focus on safety and environmental responsibility.

**Opportunities**

- Cost reductions by maximizing synergies obtained through amalgamation
- Integrated Customer Care group will provide one voice to our customers
- New Control Centre will reduce costs and enhance efficiencies
- Expansion opportunities will be evaluated to maximize cost efficiencies and increase the value of our utility for our customers and our shareholder

## Toronto Hydro Energy Services Inc.

**Profile**

A competitive wholesaler and retailer of electricity, natural gas and other energy services.

**Services**

- Sells electricity and gas, and provides energy efficient services to homes and businesses
- Develops clean and 'green' power and new generation projects
- Operates billing services
- Rents and sells water heaters
- Provides energy-related design and construction services

**Vision**

To become the leading retailer of electrical and other energy services throughout North America by offering a portfolio of branded Citisource™ energy efficient solutions for businesses and homeowners.

**Opportunities**

- Value-added energy solutions
- Strategic business alliances in areas of green power, co-generation and renewable energy resources
- Toronto Hydro Telecom Inc. will maximize the value of our fibre optic network and other telecommunications assets

# A Message from the Chair and from the President and Chief Executive Officer

**Clare R. Copeland** Chair Board of Directors Toronto Hydro Corporation

**Courtney Pratt** President and Chief Executive Officer Toronto Hydro Corporation

## We're ready. As Toronto Hydro enters its ninth decade of serving the Toronto community, we have also embarked on a new era in the Corporation's history.

The past year has been one of unprecedented change in our industry. At Toronto Hydro we are proud to report that we are now well positioned with the people, the corporate structure and the facilities to meet the challenges and opportunities created by the transition to a competitive marketplace.

**TWO YEARS OF SIGNIFICANT PROGRESS** As a utility, we have a long history, dating back to June 1911. As a corporation, we had a new beginning in 1999, following the amalgamation of the City of Toronto. In July of that year, Toronto Hydro Corporation was transformed into a holding company with two wholly-owned subsidiaries – Toronto Hydro-Electric System Limited, a monopoly distribution company regulated by the Ontario Energy Board, and Toronto Hydro Energy Services Inc., a non-regulated retail company ready to compete in the new market.

Building upon these restructuring initiatives, over the past year Toronto Hydro has continued its successful integration of the six municipal utility companies that came together under Toronto Hydro-Electric System Limited in 1999. Significant progress has been made in the harmonization of our practices and procedures. While there is still much to do, it is a testament to the quality, skill and dedication of our people that these projects have proceeded smoothly and on schedule.

As we move forward, Toronto Hydro is taking a leadership role in preparations for the competitive, re-regulated energy market that is emerging in Ontario. More importantly, we are ready to fully capitalize on our 90-year heritage of service and excellence to become a major player in the North American energy marketplace.

**NEW INITIATIVES FOR GROWTH** In October we launched Toronto Hydro Telecom Inc., a non-regulated subsidiary, to maximize the value of our city-wide fibre optic network and other telecommunications services. We are currently investigating a number of opportunities to purchase, partner or joint venture with existing technology companies to leverage these extensive assets and to sell full broadband services, including Internet, voice and data transmission.

Also in October, we introduced EBT Express, our joint venture with Ontario Power Generation Inc. When the new market opens, EBT Express will become the central data management system for independent energy retailers, including our own Toronto Hydro Energy Services Inc., to interact with Toronto Hydro-Electric System Limited and other local distribution companies. By providing a central hub for data transfer, EBT Express will ensure that the right information goes to the right place, quickly and efficiently.

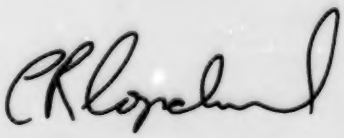
**SOLID FINANCIAL PERFORMANCE** Electricity sales rose 1.2 percent in 2000 to $1.9 billion compared to $1.88 billion in fiscal 1999. This operating performance enhanced the Corporation's financial strength at year-end as working capital remained strong.

We continued to invest in our facilities and our infrastructure during the year, as $192 million was spent on capital projects in 2000, a substantial increase over the $167 million invested in 1999. Over the past four years, Toronto Hydro has invested approximately $656 million in capital projects to ensure our systems continue to meet the needs of our customers for safe and reliable power.

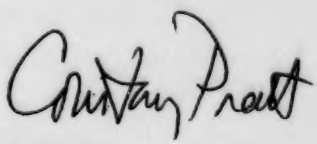
**A FOCUS ON THE FUTURE** In 2001, as we celebrate 90 years of service to the Toronto area, our vision remains clear and consistent – to be the premier Canadian provider of cost-competitive energy services. To achieve this vision, we are positioned to be a significant participant in both the regulated and competitive retail markets. We will compete effectively in our local area, and expand into broader North American markets, leveraging our talents and our cost-effective infrastructure and services. We will also explore the viability of providing other forms of energy and related services to our customers.

Our guiding principles continue to be based on our innovative, efficient, safety-focused and environmentally sensitive approach to providing superior value. By delivering to our customers the best service at the best price, by fostering an environment for our people that is both stimulating and rewarding, by capitalizing on growth opportunities and by keeping the preservation of the environment at the forefront of all we do, Toronto Hydro will continue to meet our goal of enhancing returns for our shareholder.

On behalf of the Board of Directors and our Management team, we want to thank all of you at Toronto Hydro for your dedication, hard work and loyalty over the past year. Dealing with change in any business is never easy, and we are very proud of all that you have accomplished. This annual report reflects your accomplishments. We look forward to an exciting future together, and we are confident that we have the talent and the resources to meet our goals.



**Clare R. Copeland**
Chair, Board of Directors, Toronto Hydro Corporation



**Courtney Pratt**
President and Chief Executive Officer, Toronto Hydro Corporation

**Clare R. Copeland** has been Chair of the Board of Directors of Toronto Hydro Corporation since 1999.
**Courtney Pratt** was appointed President and Chief Executive Officer on April 23, 2001.

Left to right from top left **Sasi Selvanayagam** Electrical Design Technician, Distribution Services, Toronto Hydro-Electric System Limited, 10 years **Dexter Grandison** Telecommunications Technician, Toronto Hydro Telecom Inc., 10 years **Gillian Ward** Electrical Design Technician, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 16 years **Archie Irving** Crew Leader, Certified Power Lineperson, Distribution Services, Toronto Hydro-Electric System Limited, 16 years

## January

As a result of the amalgamation of the City of Toronto, Toronto Hydro consolidates a number of operating facilities.

Reductions in capital and operating costs result in annual savings of approximately $4 million.

## March

Toronto Hydro Energy Services Inc. receives its retail and gas marketer's licence, valid for five years. Supply contracts

are signed with a number of high profile customers, expanding our presence beyond the Toronto market.

## April

We file Toronto Hydro's first rate application with the Ontario Energy Board under its Performance Based Regulation requirements. The application is approved, allowing us to harmonize and restructure the rates of the former Toronto utilities.

# Toronto Hydro Corporation

**OUR VISION** Toronto Hydro Corporation is a holding company that provides a single structure and specific shared services for the monopoly-based Toronto Hydro-Electric System Limited and the competitive Toronto Hydro Energy Services Inc. Our vision is to ensure that Toronto Hydro Corporation and its affiliates meet the needs and expectations of our customers and enhance value for our shareholder, the City of Toronto. Toronto Hydro will be the premier Canadian provider of cost-effective energy services.

**ACHIEVEMENTS** In 1999, we created our two operating entities, Toronto Hydro-Electric System Limited and Toronto Hydro Energy Services Inc. In 2000, we established two companies to grow and develop our business. Affiliate Toronto Hydro Telecom Inc. will maximize the value of our fibre optic network and other telecommunications services. EBT Express, a joint venture with Ontario Power Generation Inc., will become the electronic gateway to Ontario's energy market by providing data management and transaction services for local distribution companies and energy retailers.

**A BLUEPRINT FOR THE FUTURE** Our mandate is to promote and monitor a performance based culture in all of our operating affiliates. We will also position and allocate resources for the greatest benefit of the Corporation and our customers, while developing relationships, alliances and strategic partnerships that add value to the enterprise as a whole.

# A Message from Toronto Hydro-Electric System Limited

**John N. Brooks** President and Chief Executive Officer Toronto Hydro-Electric System Limited

## As the largest municipal electricity distributor in Canada, and the second largest in North America, Toronto Hydro-Electric System Limited now serves a customer base of close to 657,000 in our country's largest and most dynamic energy market.

The company we have today has been forged from the strengths of six municipal utilities that came together in 1999 as Toronto Hydro-Electric System Limited, a subsidiary of Toronto Hydro Corporation, following the City of Toronto's amalgamation.

**BEST PEOPLE, BEST PRACTICES** Through our restructuring and harmonization efforts, we continue to capitalize on the most valuable assets the amalgamation brought to our company: the best people and the best practices. This unparalleled expertise has made us an industry leader in wires technology and infrastructure. We are setting the standard as we pioneer performance benchmarks for Ontario utilities operating under Performance Based Regulation, as mandated by the Ontario Energy Board.

**RE-REGULATED, RESTRUCTURED AND READY** Ontario's new energy environment has challenged us to change the way we do business, and we are transforming to meet that challenge.

Reaffirming our commitment to customer service, we have integrated our customer databases and converted our information systems to the comprehensive Banner Customer Information System. We continue to emphasize superior customer service through ongoing staff training programs and performance reviews.

In 2000 we also created an External Relations division to build closer working relationships with the Ontario government and the City of Toronto. External Relations was instrumental in developing ground rules for phasing in a reasonable rate of return on investment for shareholders of regulated utilities throughout the province.

This past summer, we successfully completed our first rate increase application before the Ontario Energy Board, to restructure and harmonize our customer billings. This past fall, our rate application for an average 2.1 percent increase across the city was also approved.

To enhance our power interruption response and restoration operations, we are now in the process of consolidating our four control rooms into one master Control Centre, linked to our Customer Call Centre facility.

**OUR COMMITMENT TO YOU: CUSTOMER FOCUSED, COST-COMPETITIVE** In this time of continuous change within our industry, we proudly promote what remains constant in our company: our customer focused commitment to safe, reliable power delivery. The people of Toronto have come to depend on us to ensure that their energy needs are met, a responsibility that we have dedicated ourselves to fulfill. With time-sensitive response and cost-competitive system maintenance and upgrading programs, we will keep the power flowing day in and day out, throughout our city.

**OUR CUSTOMERS COMMENT** "I would like to extend my personal thank you for the kindness, consideration and promptness of action that enabled all concerned to get through a very difficult situation." *Residential customer – service call*

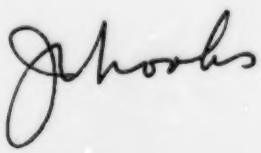
"Toronto Hydro was able to provide much-needed temporary service to the site. The prompt response and installation did a great deal to illustrate to myself that Toronto Hydro is a compassionate and human organization." *Commercial customer – fire outage restoration*

"If these are the type of employees Toronto Hydro hires, then you're the best company in the world." *Residential customer – site visit*

"Toronto Hydro…provided immense support and cooperation in assisting us on the timely completion of our projects…and continues to provide us with technical expertise in promptly attending to our power requirements." *Commercial customer – business expansion*

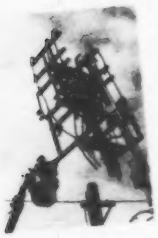
"You have handled a complex integration of services absolutely magnificently… You have proven you're the very best." *Residential customer – billing conversion*

**MOVING FORWARD** As we move through our 90th year of providing power safely and reliably to Canada's largest urban centre, I want to express my thanks to everyone at Toronto Hydro-Electric System Limited for the extraordinary achievements made over the past year. Given the unprecedented change we have experienced in our company and our business environment, it is remarkable what we have accomplished over such a short time. I am confident that, going forward, we will continue to build on our track record of delivering quality performance and value to our customers and our shareholder.



**John N. Brooks**
President and Chief Executive Officer, Toronto Hydro-Electric System Limited

### July



Various data and customer care centres are consolidated to ensure the highest levels of customer service possible. Annual savings of approximately $1 million are also realized. We complete the conversion of more than 450,000 customer accounts to our new Banner Customer Information System, the final step in the implementation of our Customer Relationship Management program.

### September

We officially break ground for our new master Control Centre, outside our Customer Service building at 5800 Yonge Street. Four control operations will be consolidated in this state-of-the-art facility, expected to be operational in early 2002.

### December

We implement the first of a three-part rate increase approved by the Ontario Energy Board, allowing us to phase in a market-based rate of return for our shareholder. This rate increase, averaging 2.1 percent across the city, comes into effect on December 1.

# Toronto Hydro-Electric System Limited

**OUR VISION** Toronto Hydro-Electric System Limited is the monopoly-based and regulated distributor of electrical power in the City of Toronto, operating a safe, reliable, effective and efficient electricity distribution system. Our vision is to demonstrate commitment to delivering a reliable source of electrical energy that consistently meets customer expectations and regulated service standards, while maintaining our focus on safety and environmental responsibility.

**ACHIEVEMENTS** Significant progress was achieved in adapting and harmonizing best practices and operating procedures from the six different utilities amalgamated under the City of Toronto. Our innovative Business Transformation project is building a unified, more efficient and highly effective organization. Also during the year, an integrated Customer Care group was established to ensure all customers receive the highest levels of service and support, and construction of our new, state-of-the-art Control Centre was begun. Significant investments were also made in electrical upgrades for a number of areas within the city.

**A BLUEPRINT FOR THE FUTURE** Going forward, Toronto Hydro-Electric System Limited will continue to operate a safe, reliable and environmentally responsible electricity distribution system for our employees and for the communities we serve. Over the short term, the company will improve key business processes, to deliver the expected dividends to our shareholder.

Left to right from top left **Amar Dhombra** Electrical Design Technician, Distribution Services, Toronto Hydro-Electric System Limited, 12 years **John Nicolucci** Electrical Design Technician, Distribution Services, Toronto Hydro-Electric System Limited, 18 years **Karen Ramkhelawan** Electrical Design Technician, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 10 years **Irwyn Nelson** Telecommunications Technician, Toronto Hydro Telecom Inc., 10 years **John Reed** Engineering Records Technician, Data & Mapping, Engineering Services, Toronto Hydro-Electric System Limited, 30 years **Christine Mak** Electrical Design Technician, Distribution Services, Toronto Hydro-Electric System Limited, 12 years **Barry Tsai** Electrical Design Technician, Distribution Services, Toronto Hydro-Electric System Limited, 14 years **Sam Poshai** Material Handler, Procurement, Toronto Hydro-Electric System Limited, 12 years **Mohamed Khan** Street Lighting Design Consultant, Street Lighting and Signal Services, Toronto Hydro-Electric System Limited, 14 years

# A Message from Toronto Hydro Energy Services Inc.

**Hilda Mackow** President and Chief Executive Officer Toronto Hydro Energy Services Inc.

## In its full first year as a separate operating subsidiary, Toronto Hydro Energy Services Inc. made significant progress toward its vision of becoming Ontario's retailer of choice for energy efficient solutions, including electricity, natural gas and other energy-based products and services.

Our goal is to provide both businesses and homeowners with peace of mind in a competitive marketplace, by providing sustainable and innovative solutions for managing their energy needs efficiently.

**CITISOURCE™** Our new brand was introduced in 2000 to represent our new family of innovative, energy efficient products and services. Citisource™ includes a wide range of offerings that leverage our expertise and intellectual capital.

**CITISOURCE™ ENERGY MANAGEMENT AND EFFICIENCY SOLUTIONS** is Ontario's first complete portfolio of tailored energy management tools, including electricity and natural gas procurement, turnkey engineering design, lighting, heating and cooling solutions.

In 2000, Toronto Hydro Energy Services Inc. was awarded Ontario's largest energy efficiency retrofit project with a value of $16 million, to optimize and upgrade the quality of energy in 130 schools for the Toronto District Catholic School Board, including pilot testing solar panels and solar classrooms.

We were also successful in gaining the confidence of some major public and private sector companies. Among these are: the City of Toronto, Dundee Realty Management Corp., the Greater Toronto Hotel Association, Brookfield Residential Services Ltd., O&Y Enterprise Real Estate Services, Manulife Financial Corporation Real Estate Division, Tremco Ltd., Ontario Store Fixtures and the Ontario Food Terminal Board.

**CITISOURCE™ ENERGY ASSET SOLUTIONS** involves developing power quality solutions such as: co-generation, premium power, distributed generation, power quality and power factor correction. Several major projects were initiated in 2000. For example:

Toronto Hydro Energy Services Inc. was the first to announce a significant co-generation project with Boralex Inc. that will help to serve the City of Toronto's core energy needs and provide a clean substitute for coal-based generation. Yves Rheault, Vice-Chairman of the Board, Business Development, Boralex Inc. described the relationship: "It has been a pleasure to work with Toronto Hydro Energy Services Inc. in the development of our joint new co-generation facility in the Portlands area of Toronto. We look forward to bringing this project into service and continuing our strong relationship."

CHUM Limited chose a generator/service upgrade package from Toronto Hydro Energy Services Inc. to address its need to ensure reliability and capacity for its signature 24 hours, 7 day a week Citytv production facility. This turnkey design/build project will provide seamless transfer between the low-emission generator system and the electrical grid during emergencies or during periods of peak demand as a price hedging strategy. This project represents an innovative application of distributed generation technology to benefit the customer.

Also in 2000, we entered an exclusive joint-venture agreement with Toromont Industries Ltd. under the name *Citisource™ Combined Heat and Power*. The joint venture will develop high-efficiency co-generation projects under 25 megawatts in the Toronto area. The co-generation plants will be fuelled primarily by natural gas, which will ultimately mean reduced carbon dioxide emissions, less smog and improved air quality. This agreement demonstrates the commitment of both companies to innovation and environmentally friendly power, which we believe will become increasingly important over time.

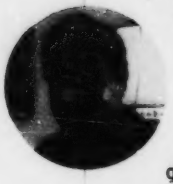
Hugo T. Sorensen, President and Chief Operating Officer of Toromont Industries Ltd. said: "We are excited about our joint venture with Toronto Hydro Energy Services Inc. Although the competitive electricity market opening has been delayed, Citisource™ Combined Heat and Power continues to develop offerings that will provide customers with attractive energy solutions."

**CITISOURCE™ DESIGN & CONSTRUCTION** provides commercial and residential developers with tailored cost efficient electrical design and construction services. In 2000, we delivered infrastructure services to over 50 customers.

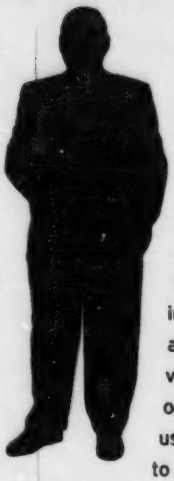
**CITISOURCE™ RESIDENTIAL ELECTRICITY OFFER** On the residential front, year 2000 marked the launch of our electricity offer to Ontario residents. We experienced excellent results throughout Ontario, with customers demonstrating their confidence by signing with Toronto Hydro Energy Services Inc. well in advance of any firm announcement of market opening date.

Left to right from top left **Victor da Rosa** Key Account Executive, Toronto Hydro Energy Services Inc. **Helen Curtis** Administrative Assistant, Toronto Hydro Energy Services Inc. **Ray Kwong** Customer Relations Associate, Toronto Hydro Energy Services Inc. **Mary-Lynne Marino** Energy Engineer, Toronto Hydro Energy Services Inc. **Samir Kareem** IT Consultant, Toronto Hydro Energy Services Inc. **Anita Windisman** Director eBusiness, Toronto Hydro Energy Services Inc. **Adrian Pye** Manager Regulatory Affairs, Toronto Hydro Energy Services Inc. **Vicky Sipidias** Director Customer Relationship Management, Toronto Hydro Energy Services Inc. **Colin Maughn** Account Executive, Toronto Hydro Energy Services Inc.

**Mr. Rod Selling**, President of the Greater Toronto Hotel Association, says, "Toronto Hydro Energy Services Inc. helped our association, which represents 132 hotels, prepare for the competitive market and installed sophisticated data monitoring equipment that gives our members the information they need to manage their power consumption and to prepare a sound energy procurement strategy."



"It seemed natural that Toronto Hydro Energy Services Inc. would be able to gather electrical data on all our buildings in Ontario from First Canadian Place to smaller commercial and industrial facilities," says **Moshe Wertheim**, Senior Vice-President, Property Innovations and Technical Services, O&Y Enterprise.



"They have delivered that information in a timely and meaningful way that allows us to take the information and examine various contract options. We are using the data to build the foundation for our energy procurement strategy."

Toronto homeowner **Leah Cohen** says, "I'm on a fixed income and need to do everything I can to keep my costs down. It's also important to me to deal with reliable companies. That's why I chose Toronto Hydro Energy Services Inc."

**CITISOURCE™ GREEN ENERGY SOLUTIONS** provides sustainable energy solutions to customers by developing and/or purchasing a substantial portion of electricity from renewable sources.

Developing a portfolio of green energy sources is important because green power is much less polluting than traditional sources of electricity. As air quality concerns are significant in southern Ontario, especially in the City of Toronto, these sources will help offset any smog production from other electricity generation. Our customer research has shown strong support for a green power offering.

In 2000, we also demonstrated our commitment to improving air quality and reducing smog by announcing the installation of two utility-scale wind turbines in downtown Toronto. In addition, we called for submissions to source 130 million kilowatt-hours of green energy.

Although the electricity market did not open in 2000, Toronto Hydro Energy Services Inc. had a successful first year of operation by selling value-added services to customers. These notable accomplishments were realized through the efforts, commitment and pride of our retail employees in delivering value to customers and our shareholder.

**Hilda Mackow**
President and Chief Executive Officer, Toronto Hydro Energy Services Inc.

According to **Mr. Angelo Sangiorgio**, Superintendent, Planning and Facilities, of the Toronto Catholic District School Board, "Toronto Hydro Energy Services Inc. was able to create a package of proven, cost effective energy management measures for our schools. They were also able to provide the Board with significant savings in the cost of implementing the program.

"Our schools will receive much-needed building renewal at lower operating costs. As an added bonus, Toronto Hydro Energy Services Inc. has added value to our project with 'green' initiatives. Solar energy panels and rooftop gardens are being installed at several of our schools.

"We look forward to a successful association with THESI and to the successful completion of our project."

"After watching what happened in California, I decided to protect myself," says **Baljit Mann**, owner, Enjoy Sweets. "I had several companies approach me. As a first-time business owner, cost and commitment from a reliable supplier made a definite impact on my decision to go with Toronto Hydro Energy Services Inc."

# Toronto Hydro Energy Services Inc.

**OUR VISION** Our vision is to be Ontario's retailer of choice for customers in meeting their energy needs. We will do this by providing both businesses and homeowners with peace of mind in a competitive marketplace through sustainable and innovative energy solutions for managing their electricity and natural gas needs efficiently, effectively and responsibly.

**ACHIEVEMENTS** Toronto Hydro Energy Services Inc. partnered with customers to create a competitive advantage for their businesses, by providing them with a wide range of innovative value-added products and services. These included tailored energy information services via the Internet to commercial customers, infrastructure and design services to residential and commercial developers and procurement strategies for property management.

**A BLUEPRINT FOR THE FUTURE** Toronto Hydro Energy Services Inc. will strive to be nimble, innovative, easy to do business with and to partner with customers to reduce their energy usage through effective energy efficient products and services. As a leading Ontario energy services company, we will remain focused on developing green energy as part of the generation mix, wholesale and retail electricity, natural gas and energy efficient products and services. We will extend our capability in e-commerce, by providing services that meet customers' needs for convenience and ease of doing business. And we will also introduce a whole range of value-added products and services to businesses, small commercial and residential customers.

# FINANCIAL STATEMENTS

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Left to right from top left **Valerie Walker** Administrative Assistant, Distribution Services, Toronto Hydro-Electric System Limited, 11 years **Curtis Ross** Certified Power Lineperson, Distribution Services, Toronto Hydro-Electric System Limited, 12 years **Abdool Chan** Material Handler, Procurement, Toronto Hydro-Electric System Limited, 11 years **Carole Wheatcroft** Energy Services Clerk, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 12 years

# Auditors' Report

**TO THE SHAREHOLDER OF TORONTO HYDRO CORPORATION**

We have audited the consolidated balance sheet of Toronto Hydro Corporation as at December 31, 2000 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
February 16, 2001.

Ernst & Young LLP

Chartered Accountants

# Consolidated Balance Sheet in thousands of dollars

| As at December 31 | 2000 | 1999 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$ 24,348** | $ 82,129 |
| Accounts receivable, net of allowance for doubtful accounts | **132,559** | 158,186 |
| Unbilled revenue | **150,054** | 105,514 |
| Inventories | **34,012** | 35,236 |
| Prepaid expenses | **2,612** | 2,102 |
| **Total current assets** | **343,585** | 383,167 |
| Capital assets (note 4) | **1,606,430** | 1,554,342 |
| Other assets | **10,513** | 5,381 |
| | **$ 1,960,528** | $ 1,942,890 |
| **Liabilities and Shareholder's Equity** | | |
| **Current liabilities** | | |
| Bank indebtedness (note 6) | **$ 15,286** | $ – |
| Accounts payable – power purchases | **165,483** | 153,089 |
| Accounts payable and accrued liabilities | **80,275** | 87,510 |
| Due to the City of Toronto | **–** | 3,329 |
| Current portion of other long-term liabilities (note 7) | **8,632** | 7,441 |
| **Total current liabilities** | **269,676** | 251,369 |
| Long-term notes payable (note 8) | **980,231** | 980,231 |
| **Other long-term liabilities** | | |
| Other post-employment benefits (note 10) | **109,216** | 105,680 |
| Customers' advance deposits and other deposits | **25,694** | 21,197 |
| Workers' compensation benefits | **5,012** | 5,261 |
| Provision for environmental costs | **1,945** | 3,369 |
| **Total other long-term liabilities** | **141,867** | 135,507 |
| **Total liabilities** | **1,391,774** | 1,367,107 |
| Commitments and contingencies (notes 11, 12, 14 and 15) | | |
| **Shareholder's equity** | | |
| Share capital | | |
| Common shares (note 16) | **567,817** | 567,817 |
| Retained earnings | **937** | 7,966 |
| **Total shareholder's equity** | **568,754** | 575,783 |
| | **$ 1,960,528** | $ 1,942,890 |

See accompanying Notes to Consolidated Financial Statements

# Consolidated Statement of Operations in thousands of dollars

| Year ended December 31 | 2000 | 1999 |
|---|---|---|
| **Sale of electricity** | **$ 1,900,029** | $ 1,877,652 |
| Cost of power | **1,614,730** | 1,598,729 |
| **Gross margin** | **285,299** | 278,923 |
| Other income from operations | **32,302** | 31,544 |
| Operating expenses | **167,730** | 180,792 |
| Depreciation and amortization | **112,791** | 106,229 |
| Property taxes | **11,908** | 10,066 |
| | **292,429** | 297,087 |
| Income from operations | **25,172** | 13,380 |
| Interest income | **2,731** | 7,653 |
| Interest expense | | |
| Long-term debt | **(33,328)** | (4,061) |
| Other interest | **(657)** | (273) |
| Other | **(947)** | – |
| **Net (loss) income for the year** | **$ (7,029)** | $ 16,699 |

See accompanying Notes to Consolidated Financial Statements

# Consolidated Statement of Retained Earnings in thousands of dollars

| Year ended December 31 | 2000 | 1999 |
|---|---|---|
| **Retained earnings, beginning of year** | **$ 7,966** | $ 1,595,231 |
| Net (loss) income for the year | **(7,029)** | 16,699 |
| Contributed capital (note 3) | **–** | 11,441 |
| Corporate reorganization adjustments | **–** | (1,615,405) |
| **Retained earnings, end of year** | **$ 937** | $ 7,966 |

See accompanying Notes to Consolidated Financial Statements

# Consolidated Statement of Cash Flows in thousands of dollars

| Year ended December 31 | 2000 | 1999 |
|---|---|---|
| **Operating activities** | | |
| Net (loss) income for the year | **$ (7,029)** | $ 16,699 |
| Adjustments for non-cash items | | |
| Depreciation and amortization | **112,791** | 106,229 |
| Loss on write-down of investments | **947** | – |
| Net change in other liabilities and assets | **(1,878)** | (1,455) |
| Other | **(53)** | 737 |
| Net change in non-cash working capital balances (note 17) | **(15,178)** | (1,560) |
| **Cash provided by operating activities** | **89,600** | 120,650 |
| **Investing activities** | | |
| Purchase of capital assets | **(192,258)** | (166,946) |
| Increase in deferred charges | **(4,303)** | – |
| Increase in investments | **(683)** | (3,221) |
| Recovery of costs on investments | **2,630** | – |
| Proceeds on sale of capital assets | **665** | 1,307 |
| Decrease in long-term investments | **–** | 46,118 |
| **Cash used in investing activities** | **(193,949)** | (122,742) |
| **Financing activities** | | |
| Increase in bank indebtedness | **15,286** | – |
| Decrease in long-term debt | **–** | (6,115) |
| Increase in contributed capital (note 3) | **26,785** | 11,441 |
| Increase (decrease) in customers' advance deposits | **4,497** | (741) |
| Transfer of funds to the City of Toronto | **–** | (100,000) |
| **Cash provided by (used in) financing activities** | **46,568** | (95,415) |
| **Net decrease in cash and cash equivalents during the year** | **(57,781)** | (97,507) |
| Cash and cash equivalents, beginning of year | **82,129** | 179,636 |
| **Cash and cash equivalents, end of year** | **$ 24,348** | $ 82,129 |
| **Supplemental cash flow information** | | |
| Interest paid | **$ 34,121** | $ 5,272 |

See accompanying Notes to Consolidated Financial Statements

# Notes to Consolidated Financial Statements all tabular amounts in thousands of dollars

December 31, 2000

## 1. INCORPORATION JUNE 23, 1999

On June 23, 1999, Toronto Hydro Corporation ('THC' or the 'Company') was incorporated under the Business Corporations Act (Ontario) along with two wholly-owned subsidiary companies, Toronto Hydro-Electric System Limited and Toronto Hydro Energy Services Inc. The incorporation was required in accordance with the provincial government's Electricity Competition Act (Bill 35). The City of Toronto passed a transfer bylaw to meet the requirements of Bill 35. Under the terms of the transfer bylaw, the City of Toronto is THC's sole shareholder.

Under a City of Toronto bylaw, the former Toronto Hydro-Electric Commission and the City of Toronto transferred, at book value, the assets and liabilities (effective July 1, 1999), and transferred the employees (effective January 1, 2000) associated with the generation, distribution, transmission and retailing of electricity and associated business activities, to the new corporations. Certain surplus property assets and cash funds were excluded from the transfer and were retained by the City of Toronto. In addition, the long-term debt incurred by the City of Toronto on behalf of the former Toronto Hydro-Electric Commission was excluded from the liabilities transferred to the new corporations and was retained by the City of Toronto.

The Company is a non-taxable entity until the market for electricity opens.

### REORGANIZATION OF TORONTO HYDRO-ELECTRIC COMMISSION

The value of net assets, transferred to THC as at July 1, 1999 was estimated to be $1,548,048,000. In consideration for such transfer, THC issued long-term notes payable to the City of Toronto in the aggregate principal amount of $980,231,000 together with shares valued at $567,817,000.

The capitalized value of the company at July 1, 1999 was determined as follows:

| | |
|---|---|
| **Equity as at June 30, 1999** | $ 1,615,405 |
| Adjustments | |
| Elimination of long-term debt from the City of Toronto | 69,618 |
| Surplus assets retained by the City of Toronto | (33,646) |
| Surplus funds retained by the City of Toronto | (100,000) |
| Other, net adjustments | (3,329) |
| | $ 1,548,048 |
| **Represented by** | |
| Long-term notes payable | $ 980,231 |
| Common shares | 567,817 |
| | $ 1,548,048 |

On September 26, 2000, wholly-owned subsidiary Toronto Hydro Telecom Inc. was incorporated under the Business Corporations Act (Ontario). On December 21, 2000, wholly-owned subsidiary 1455948 Ontario Inc. was incorporated under the Business Corporations Act (Ontario). At December 31, 2000, THC oversees the operations of Toronto Hydro-Electric System Limited, a regulated electricity distribution company, Toronto Hydro Energy Services Inc., a competitive retail services company, Toronto Hydro Telecom Inc., a telecommunications company, and 1455948 Ontario Inc., a holding company.

# Notes to Consolidated Financial Statements

December 31, 2000

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the Ontario Energy Board in the handbook 'Accounting Procedures Handbook for Electric Distribution Utilities', and reflect the significant accounting policies summarized below.

### BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of THC and its subsidiaries. All significant intercompany balances have been eliminated.

The 1999 prior year comparative statements represent the results of operations for the consolidated THC for the period July 1, 1999 to December 31, 1999, combined with the results of operations for the former Toronto Hydro-Electric Commission for the period January 1, 1999 to June 30, 1999.

### RATE SETTING

The Ontario Energy Board Act, 1998, (the 'OEB Act') gave the Ontario Energy Board ('OEB'), increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity consumers, and the responsibility for ensuring the distribution companies fulfill obligations to connect and service customers.

In its capacity to approve or fix rates, the OEB has specified the following regulatory treatments that have resulted in accounting treatments differing from Canadian GAAP for enterprises operating in a non-regulated environment:

**(a)** Expenses incurred to align systems and practices with the requirements of the future competitive electricity market in Ontario (Market Ready costs) have been deferred in accordance with the criteria set out in the OEB's Electricity Distribution Rate Handbook and the Accounting Procedures Handbook for Electric Distribution Utilities. In the absence of such regulation, these costs would have been expensed when incurred under Canadian GAAP.

### CASH AND CASH EQUIVALENTS

Cash equivalents are highly liquid investments with maturities of three months or less from their date of acquisition.

### INVENTORIES

Inventories consist principally of maintenance and construction materials and are stated at the lower of cost and replacement cost, with cost determined on a standard cost basis.

### CAPITAL ASSETS AND DEPRECIATION

Capital assets are stated at cost and are removed from the accounts at the end of their estimated average service lives, except in those instances where specific identification allows their removal at retirement or disposition. Gains or losses at retirement or disposition of such assets are credited or charged to other income.

Depreciation is provided by the straight-line method for capital assets over their estimated service lives, at the following annual rates:

| | |
|---|---|
| Buildings | 1.7% – 10.0% |
| Land rights | 2.0% |
| Distribution stations | 2.9% – 5.0% |
| Distribution lines – overhead and underground | 2.5% – 4.0% |
| Distribution transformers | 3.3% – 4.0% |
| Distribution meters | 2.9% – 4.0% |
| Other capital assets | 6.7% – 5.0% |
| Computer software | 14.0% – 33.0% |

**WORKPLACE SAFETY AND INSURANCE ACT**

THC pays workers' compensation benefits to active employees as a self-insured employer under the Workplace Safety and Insurance Act. The costs are charged to income as incurred and paid by THC.

THC recognizes in its consolidated financial statements the actuarial value of the employees' permanent disability liability. The long-term portion of this liability is disclosed in other long-term liabilities.

**PENSION PLAN**

THC provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ('OMERS'). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the 'Fund'), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund (see note 9).

**OTHER POST-EMPLOYMENT BENEFITS**

Employee future benefits provided by THC include medical and life insurance benefits, accumulated sick leave credits and voluntary exit incentive program liability. These plans provide benefits to certain employees when they are no longer providing active service. Employee future benefit expense is recognized in the period in which the employees render the services.

Effective June 30, 1999, the former Toronto Hydro-Electric Commission (see note 1) adopted the Canadian Institute of Chartered Accountants' new accounting standards for employee future benefits. THC recognizes employee future benefit costs in the period in which the employees render the services. The change in accounting policy was applied retroactively, without restatement, and resulted in an employee future benefits liability of $80,104,000 as at June 30, 1999.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Actuarial gains (losses) are amortized into expense over the average remaining service period of active employees to full eligibility.

**PROVISION FOR ENVIRONMENTAL COSTS**

THC will incur future costs associated with the disposal of contaminated waste and site restoration for certain of its properties. Although these costs cannot be reasonably determined for some properties at this time, a contingent liability exists. When reasonably determinable, THC has provided for future costs, net of expected recoveries, by charges to income. Actual costs are charged to the provision for environmental costs liability as incurred.

THC analyzes the costs of its obligations arising from environmental matters on an ongoing basis. The ultimate resolution of future environmental matters is not expected to have a material adverse effect upon the financial position or results of operations of THC.

**REVENUE RECOGNITION**

Revenue is recorded on the basis of regular meter readings. Estimates of customer usage since the last meter reading date to the end of the year are recorded as unbilled revenue.

**CONTRIBUTIONS IN AID OF CONSTRUCTION**

Effective January 1, 2000, THC prospectively adopted the change in accounting policy for contributions received in aid of construction (contributed capital), as prescribed by the Ontario Energy Board 'Accounting Procedures Handbook for Electric Distribution Utilities'. Capital contributions are required contributions received from outside sources, used to finance additions to capital assets. Capital contributions received after January 1, 2000 are treated as a 'credit' contra account included in the determination of capital assets. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the depreciation of the related capital assets. Capital contributions received for capital assets prior to January 1, 2000 were treated as contributed capital, a permanent component of equity which was not amortized (see note 3).

**CUSTOMERS' ADVANCE DEPOSITS**

Customers' advance deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

**USE OF ESTIMATES**

The preparation of consolidated financial statements in conformance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year. Actual results could differ from those estimates.

## 3. CHANGE IN ACCOUNTING POLICY FOR CONTRIBUTIONS IN AID OF CONSTRUCTION

During 2000, $26,785,000 in contributed capital was included in capital assets and of this amount $536,000 of contributed capital was amortized as a credit to income. Under the prior accounting policy, the amount of $26,785,000 would have been charged to contributed capital as a permanent component of equity.

## 4. CAPITAL ASSETS

Capital assets consist of the following as at December 31:

| | 2000 Cost | 2000 Accumulated depreciation | 2000 Net book value | 1999 Cost | 1999 Accumulated depreciation | 1999 Net book value |
|---|---|---|---|---|---|---|
| Land | $ 5,977 | $ – | $ 5,977 | $ 5,977 | $ – | $ 5,977 |
| Land rights | 9,808 | 825 | 8,983 | 9,808 | 628 | 9,180 |
| Buildings | 134,629 | 28,190 | 106,439 | 128,523 | 26,625 | 101,898 |
| Distribution stations | 149,077 | 66,383 | 82,694 | 143,617 | 59,727 | 83,890 |
| Distribution lines – overhead and underground | 1,631,753 | 602,910 | 1,028,843 | 1,545,548 | 542,975 | 1,002,573 |
| Distribution transformers | 379,644 | 173,197 | 206,447 | 364,289 | 158,982 | 205,307 |
| Distribution meters | 109,746 | 54,472 | 55,274 | 104,991 | 50,412 | 54,579 |
| Other capital assets | 200,615 | 144,655 | 55,960 | 190,978 | 131,370 | 59,608 |
| Computer software | 74,999 | 19,186 | 55,813 | 41,655 | 10,454 | 31,201 |
| Construction in progress | – | – | – | 129 | – | 129 |
| | $ 2,696,248 | $ 1,089,818 | $ 1,606,430 | $ 2,535,515 | $ 981,173 | $ 1,554,342 |

### 5. RELATED PARTY TRANSACTIONS

During 2000, THC provided streetlighting energy and streetlighting maintenance and services to the City of Toronto (parent company), in the amounts of $7,367,000 and $4,641,000 respectively (1999 – $6,270,000 and $3,850,000 respectively). THC purchased various services from the City of Toronto in the normal course of business.

### 6. BANK INDEBTEDNESS

Short-term bank lines of credit are available to THC in the amount of $104,000,000 (1999 – $69,250,000), of which there was $10,826,000 utilized as at December 31, 2000 (1999 – nil). The lines of credit are unsecured and bear interest at rates varying from the prime rate less ½% to the prime rate of a Canadian chartered bank. Prime as at December 31, 2000 was 7.5% (1999 – 6.5%).

### 7. CURRENT PORTION OF OTHER LONG-TERM LIABILITIES

| | 2000 | 1999 |
|---|---|---|
| Customers' advance deposits | $ 6,556 | $ 6,556 |
| Provision for environmental costs | 1,570 | 379 |
| Workers' compensation benefits | 506 | 506 |
| | $ 8,632 | $ 7,441 |

### 8. LONG-TERM NOTES PAYABLE

Long-term notes payable consist of the following as at December 31:

| | 2000 | 1999 |
|---|---|---|
| Long-term notes payable | $ 980,231 | $ 980,231 |

Effective July 1, 1999, THC incurred long-term notes payable to the City of Toronto (parent company) in the amount of $980,231,000. The notes were non-interest bearing to December 31, 1999, with interest payable quarterly at an effective annual rate of 6.8%, for the period January 1, 2000 until the earlier of December 31, 2001 or at which time the City of Toronto chooses to restructure them into other long-term debt. The City of Toronto agreed to waive interest for the period July 1, 2000 to December 31, 2000. THC is in the process of negotiating the interest terms of the note payable for the period commencing January 1, 2001.

### 9. PENSION PLAN

THC did not incur current service pension costs for the year ended December 31, 2000 (1999 – nil). Effective August 1, 1998, OMERS provided a temporary contribution holiday, with no company or employee pension contributions required until after December 31, 2001. In January 2002, OMERS will begin to raise contribution rates gradually until they reach their normal levels on January 1, 2004. The contribution holiday is planned, but not guaranteed. Each year OMERS will review the plan surplus to determine whether the contribution holiday will continue.

## 10. OTHER POST-EMPLOYMENT BENEFIT PLANS

THC has a number of unfunded benefit plans providing other retirement and post-employment benefits (excluding pension) to most of its employees.

**(a) Medical and life insurance benefits**
The Company pays certain medical and life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees.

**(b) Accumulated sick leave credits**
The Company pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination or death of certain employees.

**(c) Voluntary exit incentive program liability**
In October 1994, the former Toronto Hydro-Electric Commission introduced the voluntary exit incentive program to eligible employees. Certain employees receive a retirement supplement payment over the term of their retirement and the life of any surviving spouse.

Information about the THC's defined benefit plans is as follows:

| | Year ended December 31, 2000 | Six-month period ended December 31, 1999 |
|---|---|---|
| **Accrued benefit obligation** | | |
| Balance at the beginning of the period | **$ 105,680** | $ 80,104 |
| Expense for the period | **8,294** | 3,636 |
| Benefits paid | **(4,758)** | (2,396) |
| Accumulated sick leave credits | **—** | 16,502 |
| Voluntary exit incentive retirement supplement | **—** | 7,834 |
| **Balance at the end of the period** | **$ 109,216** | $ 105,680 |
| **Projected accrued benefit obligation at December 31** | **$ 89,434** | $ 100,404 |
| **Unamortized actuarial gain** | **$ 19,782** | $ 5,276 |

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows:

| | Year ended December 31, 2000 | Six-month period ended December 31, 1999 |
|---|---|---|
| **Discount rate** | | |
| Accrued benefit obligation at June 30, 1999 and December 31, 1999 and 2000 | **6.5%** | 6.5% |
| Projected accrued benefit obligation at December 31 | **7.0%** | 7.0% |
| **Salary levels** | | |
| Future general salary and wage levels were assumed to increase at the CPI rate plus productivity gains of 1.5% per annum | **4.5%** | 4.5% |
| **Dental costs** | | |
| Dental costs were assumed to increase at the CPI rate plus 1.0% | **4.0%** | 4.0% |
| **Medical costs** | | |
| Medical costs were assumed to increase at 12% in 1999 graded down by 1.6% annual decrements to 4% in 2004 and thereafter. | | |

## 11. LEASE COMMITMENTS

THC is committed to future minimum annual lease payments under operating leases with remaining lease terms between one to five years as follows:

| **Year ending December 31:** | |
|---|---|
| 2001 | $ 2,263 |
| 2002 | 1,841 |
| 2003 | 544 |
| 2004 | 21 |
| 2005 | 13 |
| Thereafter | – |
| **Total minimum lease payments** | $ 4,682 |

## 12. RETAIL COMMITMENTS

### RETAIL ELECTRICITY MARKET

During 2000, THC secured contracts to supply electric energy to residential retail customers. Electricity shall be supplied to customers for a term of one year, at a fixed price per kilowatt-hour, to commence on the date the electricity market opens. The residential retail customer may terminate the contract at any time by giving THC thirty days advance written notice. THC may renew the contracts for successive one-year periods on new terms.

### RETAIL NATURAL GAS MARKET

During 2000, THC signed contracts to supply natural gas to retail customers. The commitment became effective during 2000 and will remain in effect during subsequent years. At December 31, 2000, the commitment was fully hedged.

### CORPORATE RISK POLICY

At the end of 2000, THC's Board of Directors approved a Risk Policy establishing the risk culture and standards for the energy commodity business. The Risk Policy will serve as the decisive governance document for the above activities of the Company.

## 13. CREDIT RISK

Financial assets exposed THC to credit risk. As at December 31, 2000, there are no significant concentrations of credit risk with respect to any class of financial assets. Cash and cash equivalents include approximately $23,300,000 of commercial paper. These investments are of short maturity with a high rating.

## 14. CONTINGENCIES

A class action claiming $500,000,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission on November 18, 1998. The action was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code. The Municipal Electric Association, in cooperation with THC, is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on the consolidated financial statements of THC.

## 15. ELECTRIC INDUSTRY RESTRUCTURING AND REGULATION

The Energy Competition Act, 1998 (the 'Act') was given Royal Assent on October 30, 1998. The Act provides for a competitive market in the sale of electricity, in addition to the regulation of the monopoly electricity delivery system in the Province of Ontario, by the Ontario Energy Board (the 'Board'). The electricity marketplace will be deregulated, and electricity retailers began competing for customers as of March 1, 2000.

The Board has regulatory authority over Toronto Hydro-Electric System Limited, a regulated distribution company. The Act sets out the Board's powers to issue a distribution licence which must be obtained by any person owning or operating a distribution system under the revised Ontario Energy Board Act, 1998 ('the new OEB Act' – a component of the Act). The new OEB Act allows the Board to prescribe licence requirements and conditions to electricity distributors which may include, among other considerations, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing/process requirements for rate setting purposes.

## 16. SHARE CAPITAL

Share capital consists of the following as at December 31:

| | 2000 | 1999 |
|---|---|---|
| **Authorized** | | |
| The authorized share capital consists of an unlimited number of common shares. | | |
| Any invitation to the public to subscribe for securities of the Corporation is prohibited. | | |
| **Issued and outstanding** | | |
| 1,000 common shares | **$ 567,817** | $ 567,817 |

## 17. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

The net change in non-cash balances related to operations consists of the following:

| | 2000 | 1999 |
|---|---|---|
| Decrease (increase) in account receivable | **$ 25,627** | $ (28,982) |
| Decrease (increase) in unbilled revenue | **(44,540)** | 10,346 |
| Decrease (increase) in inventories | **1,224** | (669) |
| Increase in prepaid expenses | **(510)** | (187) |
| Increase in accounts payable – power purchases | **12,394** | 7,182 |
| Increase (decrease) in accounts payable and accrued liabilities | **(7,235)** | 13,831 |
| Decrease in due to City of Toronto | **(3,329)** | – |
| Increase (decrease) in current portion of long-term liabilities | **1,191** | (3,081) |
| | **$ (15,178)** | $ (1,560) |

## 18. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2000 consolidated financial statements.

# Consolidated Five Year Summary in thousands of dollars

| | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **Statement of Operations** | | | | | |
| Sale of electricity | **$ 1,900,029** | $ 1,877,652 | $ 1,852,812 | $ 1,839,423 | $ 1,863,766 |
| Cost of power | **1,614,730** | 1,598,729 | 1,567,333 | 1,553,323 | 1,565,824 |
| Gross margin | **285,299** | 278,923 | 285,479 | 286,100 | 297,942 |
| Other income from operations | **32,302** | 31,544 | 26,442 | 27,432 | 30,620 |
| Operating expenses | **167,730** | 180,792 | 159,106 | 165,109 | 167,350 |
| Depreciation and amortization | **112,791** | 106,229 | 99,447 | 95,211 | 90,349 |
| Property taxes | **11,908** | 10,066 | 9,300 | 9,659 | 9,179 |
| | **292,429** | 297,087 | 267,853 | 269,979 | 266,878 |
| Interest income (expense), net | **(31,254)** | 3,319 | 5,043 | 3,007 | 7,055 |
| Other, including voluntary separation and retirement programs | **(947)** | – | (38,735) | (1,250) | – |
| Net income (loss) | **$ (7,029)** | $ 16,699 | $ 10,376 | $ 45,310 | $ 68,739 |
| **Balance Sheet** | | | | | |
| Assets | | | | | |
| Current assets | **$ 343,585** | $ 383,167 | $ 461,182 | $ 484,640 | $ 483,405 |
| Capital assets | **1,606,430** | 1,554,342 | 1,528,920 | 1,487,541 | 1,428,070 |
| Other assets | **10,513** | 5,381 | 52,045 | 52,643 | 45,063 |
| | **$ 1,960,528** | $ 1,942,890 | $ 2,042,147 | $ 2,024,824 | $ 1,956,538 |
| Liabilities and shareholder's equity | | | | | |
| Current liabilities | **$ 269,676** | $ 251,369 | $ 240,236 | $ 227,561 | $ 227,772 |
| Long-term debt (note 1) | **980,231** | 980,231 | 67,244 | 78,557 | 62,219 |
| Other long-term liabilities | **141,867** | 135,507 | 59,332 | 61,223 | 59,976 |
| Shareholder's equity (note 1) | **568,754** | 575,783 | 1,675,335 | 1,657,483 | 1,606,571 |
| | **$ 1,960,528** | $ 1,942,890 | $ 2,042,147 | $ 2,024,824 | $ 1,956,538 |
| **Statement of Cash Flows** | | | | | |
| Cash provided by operating activities | **$ 89,600** | $ 120,650 | $ 119,658 | $ 137,648 | $ 159,858 |
| Cash used in the purchase of capital assets | **(192,258)** | (166,946) | (140,718) | (156,405) | (164,260) |
| Cash provided by (used in) other investing activities | **(1,691)** | 44,204 | (2,961) | 732 | 775 |
| Cash provided by (used in) financing activities | **46,568** | (95,415) | (3,289) | 23,274 | 32,768 |
| Net increase (decrease) in cash and cash equivalents | **$ (57,781)** | $ (97,507) | $ (27,310) | $ 5,249 | $ 29,141 |

Note 1: Recapitalization occurred effective July 1, 1999

# Directors*

**2000 Toronto Hydro Board of Directors** left to right **David M. Williams Councillor Mario Silva Timothy J. Millard David L. Bumstead Dr. Ruth M. Corbin Councillor Jack Layton** (Vice-Chair) **Clare R. Copeland** (Chair) **Dr. Frank Frantisak Councillor Betty Disero Peter Y. Atkinson L. Ross Cullingworth**

**TORONTO HYDRO CORPORATION**

▲ Clare R. Copeland
*Chair*

● Councillor Jack Layton
*Vice-Chair*

● Peter Y. Atkinson

◆ David L. Bumstead

◆ Dr. Ruth M. Corbin

◆ L. Ross Cullingworth

Councillor Betty Disero

● Dr. Frank Frantisak

▲ Timothy J. Millard

◆ Councillor Mario Silva

▲ David M. Williams

**TORONTO HYDRO-ELECTRIC SYSTEM LIMITED**

Clare R. Copeland
*Chair*

Councillor Jack Layton
*Vice-Chair*

Peter Y. Atkinson

David L. Bumstead

Dr. Ruth M. Corbin

L. Ross Cullingworth

Councillor Betty Disero

Dr. Frank Frantisak

Timothy J. Millard

Councillor Mario Silva

David M. Williams

**TORONTO HYDRO ENERGY SERVICES INC.**

Clare R. Copeland
*Chair*

David L. Bumstead

Dr. Ruth M. Corbin

L. Ross Cullingworth

David M. Williams

**Sub-Committees**

▲ Audit and Corporate Governance

◆ Compensation

● Health, Safety and Environment

***Our thanks to departing Directors, Councillor Betty Disero and Councillor Mario Silva**

**We welcome to our 2001 Board of Directors:**

**Case Ootes** Deputy Mayor and Councillor **Lorenzo Berardinetti** Councillor

# Senior Management effective June 2001

**TORONTO HYDRO CORPORATION**

Courtney Pratt
*President and*
*Chief Executive Officer*

John N. Brooks
*President and*
*Chief Executive Officer*

Hilda Mackow
*President and*
*Chief Executive Officer*

Wanda Liczyk
*Senior Vice-President and*
*Chief Financial Officer*

Jeff Clark
*Vice-President*
*Supply and Service*

I. Bruce MacOdrum
*Vice-President and*
*General Counsel*
*Corporate Secretary*

Blair Peberdy
*Vice-President*
*Communications and*
*Corporate Planning*

David Scott
*Vice-President*
*Human Resources*

Jim Tearne
*Vice-President*
*Finance and Risk Management*

Connie Woo
*Vice-President*
*Information Technology and*
*Chief Information Officer*

**TORONTO HYDRO-ELECTRIC SYSTEM LIMITED**

John N. Brooks
*President and*
*Chief Executive Officer*

Joe Bailey
*Senior Vice-President*
*Asset Management*

Jim Black
*Senior Vice-President*
*Distribution Services*

Peter D'Uva
*Senior Vice-President*
*Customer Services*

Susan Davidson
*Vice-President*
*Customer Care*

Bob King
*Vice-President*
*Business Transformation*

Vacant
*Vice-President*
*Network Services*

**TORONTO HYDRO ENERGY SERVICES INC.**

Hilda Mackow
*President and*
*Chief Executive Officer*

Max Cananzi
*Vice-President*
*Wholesale Energy*

Lorna Francis
*Vice-President*
*Marketing*

Gary Reynolds
*Vice-President*
*Finance and Operations*

Todd Wilcox
*Vice-President*
*Business Development*
*and Generation*

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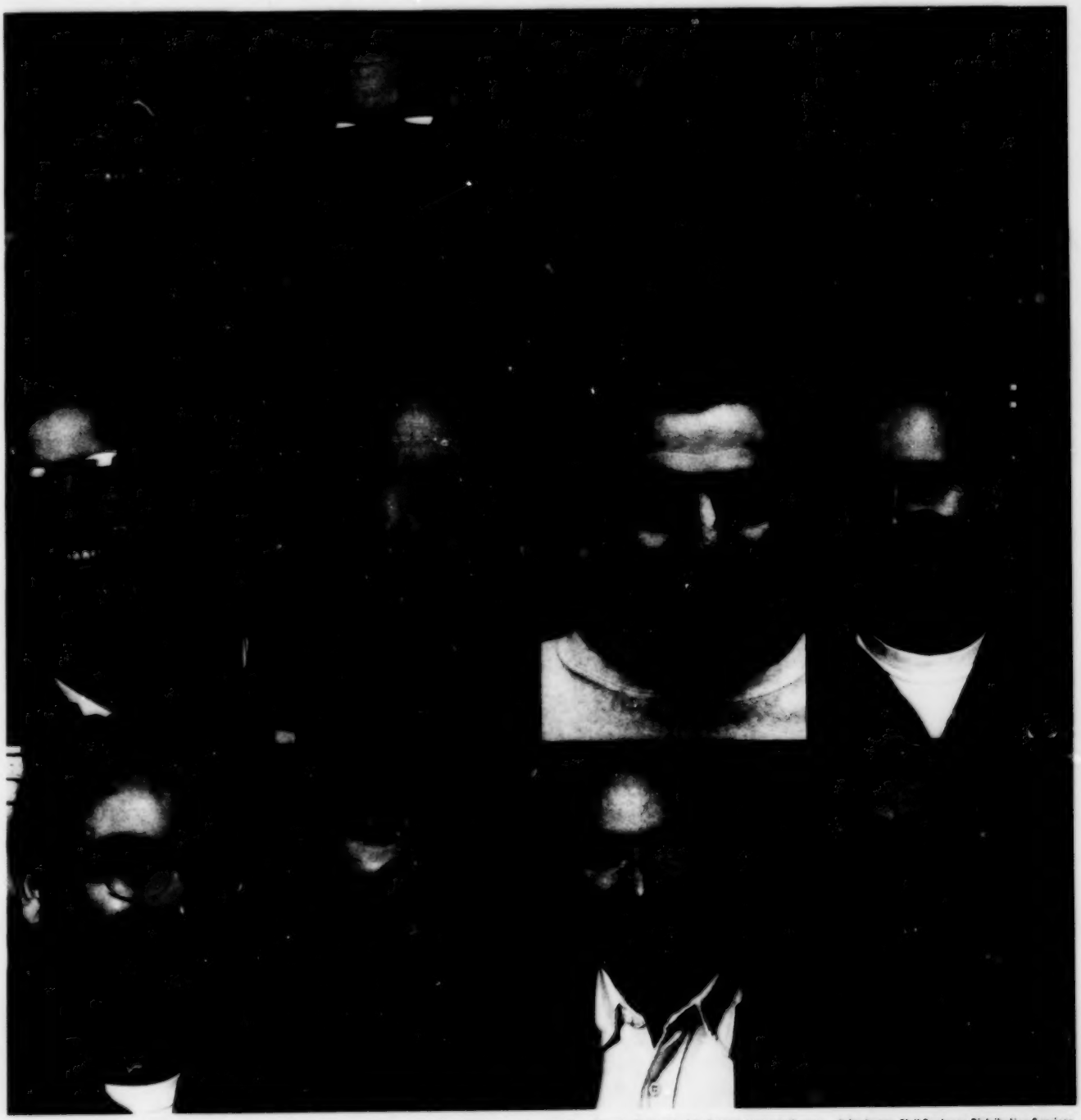
Left to right from top left: **Ramesh Chadha** Engineer, System Planning and Performance, Toronto Hydro-Electric System Limited, 12 years. **John Aspro** Technician, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 12 years. **Lakhram Harrycharran** Electrical Design Technician, Distribution Services, Toronto Hydro-Electric System Limited, 29 years. **Frank Soloway** Crew Leader, Certified Power Lineperson, Distribution Services, Toronto Hydro-Electric System Limited, 32 years. **Harv Kielly** Certified Power Lineperson, Street Lighting and Signal Services, Toronto Hydro-Electric System Limited, 30 years. **Latifa Hussein** Senior Office Clerk, Customer Demand Services, Toronto Hydro-Electric System Limited, 3 years. **Dave Graham** Acting Design Supervisor, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 20 years. **Robert Hyponer** Field Services Representative, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 27 years. **Les Lemieux** Certified Crew Leader, Metering, Field Services, Toronto Hydro-Electric System Limited, 26 years. **John Munro** IT Client Consultant, Distribution Services, Toronto Hydro-Electric System Limited, 21 years. **John Davidson** Team Leader, Field Services, Toronto Hydro-Electric System Limited, 22 years. **Elizabeth Watson** Electrical Design Technician, Distribution Services, Toronto Hydro-Electric System Limited, 20 years.

## CORPORATE INFORMATION

Toronto Hydro Corporation
Corporate Communications, 8th Floor
14 Carlton Street
Toronto, ON
Canada M5B 1K5

Telephone: 416.542.3100
Website: www.torontohydro.com



Left to right from top left **Miguel Estrada** Electrical Design Technician, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 12 years **John Innes** Civil Engineer, Distribution Services, Toronto Hydro-Electric System Limited, 12 years **Al Carter** Electrical Design Technician, Customer Facilities Design and Construction, Toronto Hydro-Electric System Limited, 29 years **Jose Da Silva** Service Coordinator, Facilities and Asset Management, Toronto Hydro-Electric System Limited, 15 years **Don Harradine** Certified Power Lineperson, Distribution Services, Toronto Hydro-Electric System Limited, 10 years **Ray Hook** Certified Power Lineperson, Distribution Services, Toronto Hydro-Electric System Limited, 15 years **Tony Lagana** Electrical Design Technician, Distribution Services, Toronto Hydro-Electric System Limited, 15 years **Bill McConnell** Energy Field Service Representative, Field Services, Toronto Hydro-Electric System Limited, 22 years **Ellen Allan** Material Analyst, Procurement, Toronto Hydro-Electric System Limited, 19 years **Richard Cook** Supervisor, Integrated Customer Response, Toronto Hydro-Electric System Limited, 22 years **Robert Saundercook** Certified Power Lineperson, Street Lighting and Signal Services, Toronto Hydro-Electric System Limited, 9 years

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